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Governor Ted
Schwinden's
amendments to the
Montana executive
budget, 1982-1983

Governor Ted Schwinden's
Amendments

to the

Montana Executive Budget

STATE DOCUMENTS COLLECT.

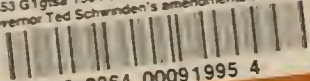
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TED SCHWINDEN
GOVERNOR

State of Montana
Office of the Governor
Helena 59620

January 12, 1981

MR. PRESIDENT, MR. SPEAKER
MEMBERS OF THE FORTY-SEVENTH LEGISLATURE:

A budget is a barometer of fiscal conditions. As a public administrator and as the private operator of a family farm, I know what it's like to make out a budget. I know what it's like to make a profit. I know what it's like to take a loss. As governor, I will not tolerate state government operating at a loss or accumulating unnecessary surpluses.

The prior administration recommended total General Fund expenditures of \$596.7 million for the next biennium. After a preliminary review, I am recommending an initial general fund reduction of more than \$52 million in the executive budget. As the new directors review their budgets with the Legislature, I expect further reductions.

The first place to start trimming is in my own budget. As I said last Friday, "Frugality, like charity, begins at home." My budget revisions call for a reduction of \$700,000 and 22.5 employees from the recommended budget for the Governor's Office---a reduction of six staff from the current level. The current Executive Budget request calls for \$5.3 million in out-of-state travel for state employees and \$22 million to hire consultants and to acquire professional services. I have asked my directors to review carefully these two items with an eye toward minimizing out-of-state travel and the use of consultants.

State government can tighten its belt, and I am confident my cabinet will insist that happens. Having reduced my staff 10 percent from the current level, I do not feel uncomfortable about asking department directors to reduce employment in their Departments by one percent per year. There were 14,295 fulltime equivalent positions in state government on December 1, 1980; my objective for the end of this biennium is to reduce the number of positions below that level subject, of course, to whatever positions the Legislature adds to that base.

The budget submitted by the prior administration was not balanced because it proposed spending levels that anticipated tax increases. The recommended spending level, for example, for the Department of Justice could not be funded without doubling the vehicle registration fee. The recommended budget for the Department of Highways could not be financed without an increase in the gasoline tax of two cents per gallon. The budget I propose will not require an increase in either vehicle registration fees or in the gas tax.

In addition to the General Fund budget reductions, I am recommending a tax reform package consisting of three major programs---programs designed to reduce the relative tax burden---"the pain"---on the low and middle income taxpayer. I know the "pain" of writing out the check to pay my taxes. I also know that I will be an effective administrator only as long as I am able to relate that "pain" to the expenditure of the public's tax dollars. My Cabinet officers will be expected to show that same sensitivity.

The time has come for a sensible car and pickup licensing system, setting a maximum cost of \$65 per year per vehicle. A licensing program of this kind will put an end to the tiresome, energy-wasteful lines at the courthouse and the ever-rising license fees Montanans have endured. The revenue loss to each county will be replaced by the state at a cost of \$32.5 million for this biennium. An increase in the oil producer's severance tax from 2.65 percent to five percent will fund the program. There is an inherent equity in requiring the oil industry to finance a program designed to help their primary customers.

Modification of the ten percent income tax surcharge is long overdue. I recommend a revision of the tax schedules to eliminate the ten percent income tax surcharge for the 90 percent of Montana's taxpayers whose annual adjusted gross income is below \$20,000. This will reduce income tax collections by \$20 million for the biennium.

The third tax proposal would provide a \$20 million reduction in property taxes per biennium for Montana's low and middle income senior citizens. Most senior citizens, particularly those living on a fixed income, are hard hit by increasing property taxes. The program I recommend will, I hope, ease their tax burden.

The fourth tax reduction measure is a change in the inheritance tax. I support the Revenue Oversight Committee's bill reducing the inheritance tax on lineal descendants. No one should have to "sell the farm" to afford the state inheritance tax. This proposal would reduce inheritance taxes paid by Montanans by \$2 million this biennium.

Reducing vehicle licensing taxes, providing a property tax break for senior citizens and eliminating the surtax for all but the highest income brackets follows the Democratic Party tradition of tax reform. Tax reductions that benefit the majority, rather than higher income taxpayers or special interest groups, represent the kinds of reform Montanans need and want.

This tax reform package also eliminates the need for a \$20 million increase in the gas tax and a \$5 million increase in vehicle registration fees.

In addition, I will propose three changes to the tax indexing program approved by the voters in November. These changes will make the program workable and fiscally responsible.

First, we must establish the base for individual exemptions at \$800. The Attorney General has ruled that under the present construction of Initiative 86, the base is \$1,250. Retention of the \$1,250 level would cost

the state \$94 million in revenue this biennium. The Republican tax package released Thursday estimated the cost of the indexing program at \$35 million so they apparently agree that \$800 is the proper base.

The second modification would replace the National Consumer Price Index (CPI) as the measure of inflation---even the federal government acknowledges the limitations of this index. I propose that the Personal Consumption Expenditure Index be used in lieu of the CPI---it is a more accurate measure of inflation.

Finally, fiscal common sense dictates that a triggering mechanism be developed to ensure that a reasonable reserve is retained in the General Fund. This would require that the tax tables be adjusted each year by the amount required by the index, minus an amount necessary to retain a General Fund balance equal to three percent of the biennial General Fund revenue. This reserve will protect the state against problems caused by sudden fluctuations in the state's economy. It will also safeguard our credit rating and our bond rating. If, however, the year-end surplus exceeds the three percent reserve, the personal exemptions, standard deduction, and the tax brackets will be increased beyond the level established through indexing, thus reducing taxpayer's tax bills in the next year. We will submit legislation to enact these recommendations, and I would hope the proponents of a practical tax indexing program would support these modifications.

Tax indexing can ease the tax bill for Montanans and make politicians more responsible for their actions. State income taxes, however, are not the major cause of Montanans' tax troubles. In 1979, federal taxes accounted for 67 percent of the total tax load on Montanans. To obtain some relief from the federal tax load, I have asked Senator Melcher and Senator Baucus to introduce federal tax indexing legislation. Unless federal income taxes are indexed, as much as one-third of the total tax reduction granted to Montanans by Initiative 86 will be collected by the federal government in increased federal income taxes. Because state taxes may be claimed as itemized deductions on federal income tax returns, when state taxes are reduced, the federal government collects more tax revenues. Robbing Peter to pay Paul must stop!

I have been assured by Montana's congressional delegation that they will introduce and support indexing federal income tax collections, and thereby eliminate the windfall of taxes collected by the federal government because of inflation.

Support of our schools has always been a top priority for Montanans, and a quality education is one of the greatest gifts we can give our children. I have proposed adjustments to the School Foundation program by increasing the program's schedule 12 percent per year. It is hoped that this level of increase will compensate for the impact of inflation and enrollment losses and reduce the need for increased voted levies.

I am recommending that the interest of the coal tax trust fund be used for two purposes. One, to fund a highway construction program at a \$10 million per year level. With federal matching money, this potentially means \$50 million of construction each year. This will allow the department to resurface or reconstruct 100-400 miles of highway per year depending on the federal match.

The second use is to aid our hard pressed local governments. I am proposing that the state provide a proportion of the costs incurred by District Courts as required by the District Court aid bill passed by the last legislature. It is also time for the state to reimburse local governments for the cost of providing fire and police protection to state facilities. During the campaign, I pledged to make the state pay for its share of costs inflicted on local governments. I stand by that pledge.

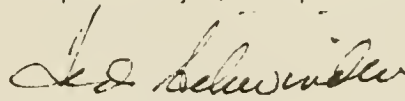
Montana's coal severance tax is being challenged in the courts. State government should take no action that will jeopardize our position in that case. The interest on the trust fund should be used for programs that truly help Montana citizens---programs like highway construction and assistance to local governments---not for administrative costs to operate state government.

I also offer two changes in the long range building program. One, to add \$4 million for a new building to provide a centralized office for the Workers' Compensation Division. Two, to add \$500,000 to plan a new building for the Department of Natural Resources and Conservation. Funding for the building will be requested in the next biennium.

The attached appendices explain in further detail the effect of my amendments on the total budgetary picture for the state. I project a General Fund balance of nearly \$20 million at the end of the biennium---a level consistent with sound fiscal management.

State government can work more effectively, become more responsive to citizen needs and at the same time cut costs without crippling our ability to provide necessary services. I do not intend to settle for less, neither should you nor the people of Montana.

Respectfully (and peacefully) yours,

A handwritten signature in dark ink, appearing to read "Ted Schwinden", written in a cursive style.

TED SCHWINDEN
Governor of Montana

APPENDIX A

PRELIMINARY BUDGET REVIEW

January 12, 1981

Adjustments to Governor Judge's Budget Request

Submitted December 23, 1980

No reductions recommended for Legislative and Judicial branch.

Secretary of State

Secretary of State Waltermire has requested \$133,000 be added to his budget for microfilming and indexing the administrative codes.

Governor's Office

Reduce the request for the Governors Office by 22.5 FTE. Reduce Office of Budget and Program Planning (OBPP) 13.5 and transfer 1 to Department of Administration, transfer five positions from Office of Commerce to Department of Commerce and one to the Executive Office, eliminate five positions from Mansion, add two FTE to executive office staff. Net FTE reduction 22.5. Reduction - \$700,000 General Fund.

Foundation Program

A revised revenue estimate and discovery of an error have revealed \$20 million in over funding for the Foundation Program. The budget allows for an increase of 11 percent per year in the schedules. We propose an increase of 12 percent per year and still reduce the recommended budget by \$15 million. Reduction - \$15 million General Fund.

Department of Justice

Eliminate the need for the registration fee increase and the gas tax increase by providing General Fund for the Crime Lab, Law Enforcement Network System, Law Enforcement Academy, Data Processing Division, Forensic Science Division and Centralized Services Division. In addition all Highway Patrol costs and Driver Licensing would be transferred from Gas tax to General Fund. We recommend the number of new patrolmen be reduced from 10 to 5. This will save \$319,486 General Fund.

The executive budget increases the amount charged to city and county trainees per day by the Law Enforcement Academy from \$3.25 to \$10. To encourage these peace officers to receive more training, we recommend an increase in their fees increase to only \$5 per day. This will cost \$94,986 in General Fund support over the biennium. Increase - \$26,350.000 (includes money for pay raise) General Fund.

University System

No reductions except MSU as noted below. The near agreement of the Regents and the Legislative Interim Committee is unique and commendable.

Montana State University

Eliminate the request for the Institute for Water Resources. This was not requested or recommended by the Regents. Reduction - 13.32 FTE and \$1,407,628 General Fund.

Montana State Library

Add one coordinator of Volunteer Services for the Blind to expand preparation and distribution of talking books for the blind. Increase 1 FTE and \$50,000 General Fund.

Superintendent of Public Instruction

A budgeting error double-funded some positions. Reduction - \$72,300 General Fund.

Montana Arts Council

Increased funding for Artists in the Schools Program and Administrative Support. Increase - \$66,000 General Fund.

Historical Society

Add Historical Outreach Project. Increase - \$200,000 General Fund.

Department of Highways

Reduce General Fund appropriation for the Motor Pool by 50 percent. Save \$220,000 for the biennium.

Appropriate \$10 million a year for accelerated highway construction from the Coal Tax Interest Account. Total cost \$20 million for biennium. This will allow the Department to resurface or reconstruct 100 to 400 miles of primary and secondary highways each year, depending on how much federal matching money is available.

Travel Promotion

Recommended at \$850,000 per year from the Gas Tax. Reduce the budget to \$700,000 in 1982 and 1983. Appropriate an added \$200,000 in 1983 to be expended only on receipt of matching money from the industry. For every dollar raised privately \$2 of state money would be used from the \$200,000 contingency appropriation. Reduction - \$1.7 million Gas Tax. Increase \$1.6 million General Fund.

Department of Natural Resources

The water development program will be funded at a cost of \$1.5 million for the biennium from Resource Indemnity Trust Fund Interest. We also recommend funding the Department general operations from Resource Indemnity Trust Fund Interest. Reduction - \$3.5 million General Fund.

Department of Administration

Put the Board of Investments on an earmarked fund and pay for operations by assessing each fund they manage. Reduction - \$1,256,485 General Fund.

Add a Coordinator of Employment for the Handicapped, to work with agencies to identify barriers in test and qualifications which make it difficult for handicapped to get work. Increase - \$50,000 General Fund.

Add funding for District Courts and payment for City Police and Fire Services provided to state agencies. Increase - \$6 million. Coal Tax Trust Fund Interest.

Department of Health and Environmental Sciences

Increase appropriations by \$100,000 per year to fund the Tumor Registry and the Poison Control Center. Increase - \$200,000 General Fund.

Institutions

Ask for flexibility to allow the Director to move resources between programs in the corrections area and between programs in the rest of the Department. Better management will allow more effective use of resources. Add fifteen direct care people at WSSH. Increase - \$600,000 General Fund.

Consolidate management of Warm Springs and Galen. Save \$600,000 in biennium through attrition.

Decrease General Fund for mental health centers by \$2,300,000 for the biennium. This funding will be available from federal funds, county funds, and fees. The state will assume responsibility for funding the pay raise for the Mental Health Center. Reduction - Warm Springs, Galen, Mental Health Center - \$2.9 million General Fund.

Department of Community Affairs

Reduced cost from reorganization \$900,000 General Fund and eliminate 30 FTE. Reduction - \$900,000 General Fund.

Department of Social and Rehabilitation Services

Reduction of no services. Increase the AFDC payment standards 28 percent for the biennium rather than 50 percent. This is more in line with expected salary increases and inflation expectations. This allows an increase from \$331 a month for a family of four to \$391 in FY 82 and \$424 in FY 83. Reduction - \$6.6 million General Fund.

All Agencies

Reduce all agencies' operating budgets by at least 3% per year as a result of the reviews made by the new directors. Reduction - 9.45 million General Fund.

APPENDIX B

General Fund - 1983 Biennium

| | In Millions | |
|---|----------------|----------------|
| | <u>1982</u> | <u>1983</u> |
| Beginning Balance | \$ 46.2 | \$ 64.1 |
| Add Revenue From Executive Budget * - ** | <u>286.3</u> | <u>303.5</u> |
| Funds Available | <u>\$332.5</u> | <u>\$367.6</u> |
| Expenditures from Executive Budget | 250.5 | 346.2 |
| Governor Elect Net Expenditure Reductions | <u>(3.9)</u> | <u>(18.8)</u> |
| Total Revised Expenditures | \$246.6 | \$327.4 |
| Governor Elect Tax Reform: | | |
| Surtax Reduction | 11.3 | 9.6 |
| Senior Citizen Property Tax Relief | 10.0 | 10.0 |
| Inheritance Tax Reduction | <u>0.5</u> | <u>1.6</u> |
| Ending Fund Balance | <u>\$ 64.1</u> | <u>\$ 19.0</u> |

* Does not include Coal Tax or Resource Indemnity Trust Interest income.

** Assumes revisions of indexing as shown on page 2 and 3.

APPENDIX C

General Fund Adjustments

| <u>Decreases</u> | <u>Biennium</u> |
|--|-----------------------|
| Warm Springs/Galen merging of management | \$ 600,000 |
| OSPI budget error | 72,000 |
| Adjust Mental Health Center funding | 2,300,000 |
| Motor Pool (cut new vehicles in half) | 220,000 |
| Budget for 1983 Supplementals | 10,000,000 |
| Governor's Office | 700,000 |
| MSU Water Institute | 1,407,628 |
| Department of Natural Resources | 3,500,000 |
| Administration Investments Program | 1,256,485 |
| DCA Reorganization | 900,000 |
| SRS (Revised cost estimates) | 6,600,000 |
| All agency 3% reduction in General Fund expenses | 9,450,000 |
| Foundation Program Adjustment for Increased Revenue Estimate for I&I | <u>15,000,000</u> |
| Total Reduction in Governor's Recommended General Fund Budget | <u>\$(52,006,113)</u> |

| <u>Increases</u> | |
|---|---------------------|
| Secretary of State (decrease in 1982 and increase in 1983) | \$ 133,000 |
| Department of Health Tumor Register and Poison Control | 200,000 |
| Transfer funding for Department of Justice from gas tax and registration fees | 26,350,000* |
| State Library Coordinator of services for blind | 50,000 |
| Historical Society Montana Heritage | 200,000 |
| Travel Promotion (From gas tax) | 1,600,000 |
| Coordinator of Handicapped Employment | 50,000 |
| WSSH Direct Care | 600,000 |
| Montana Arts Council | <u>66,000</u> |
| Increases | <u>29,249,000</u> |
| Net Change in General Fund | <u>(22,757,113)</u> |

*Highway Patrol 21.5 mil + 4.2 other program.

Gas Tax Fund*

| | |
|---|-----------------------|
| Transfer out of Highway Patrol | \$(21,512,560) |
| Transfer out of Travel Promotion | <u>(1,700,000)</u> |
| Total reduction of Gas Tax expenditures | <u>\$(23,212,560)</u> |

*Eliminates need for 2¢ Gas Tax increase and the doubling of the vehicle registration fee. Includes funds to cover the pay increase for the highway patrol.

Budget Adjustments

Coal Tax Trust Interest

| | |
|---|----------------------|
| Department of Administration (Fund Courts and Payment for Police and Fire Protection) | \$ 6,000,000 |
| Highway Construction | <u>20,000,000</u> |
| Increase in trust interest | <u>\$ 26,000,000</u> |

Resource Indemnity Trust

| | |
|---------------------------------------|--------------------|
| Water Development | \$1,500,000 |
| Funding of Dept. of Natural Resources | <u>3,500,000</u> |
| Total Resource Indemnity Trust | <u>\$5,000,000</u> |

APPENDIX D

Adjustments by Fiscal Year

General Fund

| | <u>FY 82</u> | <u>FY 83</u> |
|--------------------------------------|--------------|--------------|
| Decreases: | | |
| Secretary of State | \$ (60,000) | \$ |
| Motor Pool | (220,000) | |
| Mental Health Center | (700,000) | (1,600,000) |
| WSSH and Galen Management merger | (300,000) | (300,000) |
| Supplemental Appropriation reduction | (5,000,000) | (5,000,000) |
| MSU Water Institute | (603,467) | (804,161) |
| Governor's Office | (350,000) | (350,000) |
| Natural Resources | (1,750,000) | (1,750,000) |
| Administration | (622,255) | (634,230) |
| Community Affairs | (550,000) | (350,000) |
| Social and Rehabilitation Services | (2,900,000) | (3,700,000) |
| 3% Reduction | (4,650,000) | (4,800,000) |
| Foundation | 0 | (15,000,000) |
| Error in OSPI budget | (36,000) | (36,000) |

Increases:

| | | |
|---|----------------------|-----------------------|
| Secretary of State | -0- | 193,000 |
| Justice | 12,550,000 | 13,800,000 |
| Historical Society | 100,000 | 100,000 |
| Library | 25,000 | 25,000 |
| Travel Promotion | 700,000 | 900,000 |
| Handicapped Coordinator | 25,000 | 25,000 |
| WSSH Direct Care | 300,000 | 300,000 |
| Montana Arts Council | 33,000 | 33,000 |
| Health - Tumor Registry and Poison Control | <u>100,000</u> | <u>100,000</u> |
| | <u>\$(3,908,722)</u> | <u>\$(18,848,391)</u> |

Net reduction of 68.8 FTE.

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